

GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE



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> UPDATE ON AFRICA

The Emerging Markets of Africa

Africa is a huge continent, comprised of 54 different countries and over 1.2 billion people speaking more than 1,500 official languages. Within the region, any given country is vastly different from the next—but investment opportunities abound within many expanding markets.

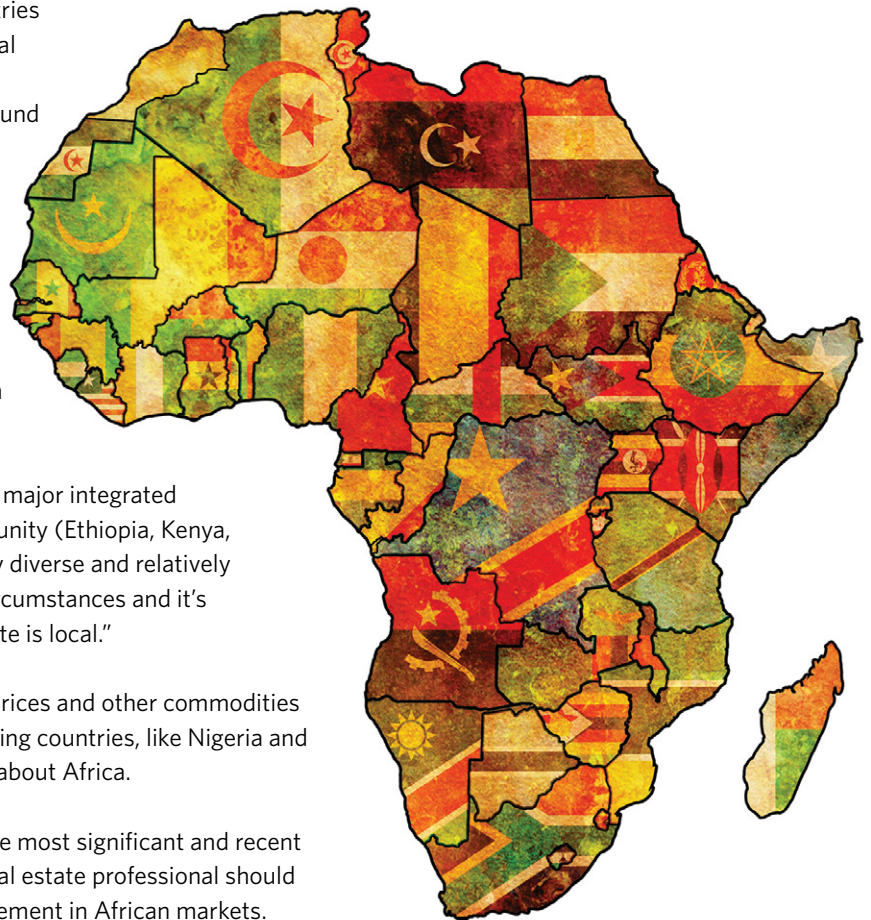
Geographically, the broadest distinctions are between the North African and Sub-Saharan African (SSA) countries. It is within SSA where the most dramatic economic changes have occurred since the turn of the century, when rising commodity prices (particularly oil) played a key role in pushing several countries' GDP growth rates into double-digit territory.

Within SSA, further geographic distinctions exist between major integrated trade communities. Among these, the East African Community (Ethiopia, Kenya, Mozambique, Tanzania and Uganda) is more economically diverse and relatively well-integrated. Still, each country faces a unique set of circumstances and it's essential to pay close attention to the mantra "all real estate is local."

Change can be swift. Beginning in 2014, a steep fall in oil prices and other commodities put a serious dent in the economic growth of major exporting countries, like Nigeria and Angola. Still, there are many reasons to remain optimistic about Africa.

This issue of *Global Perspectives* provides an overview of the most significant and recent developments on the continent—facts that every global real estate professional should know, regardless of whether you plan to have direct involvement in African markets.

You'll also find snapshots of four countries—Ghana, Nigeria, South Africa and Kenya—which help illustrate the significant differences between nations across the continent. 🌐



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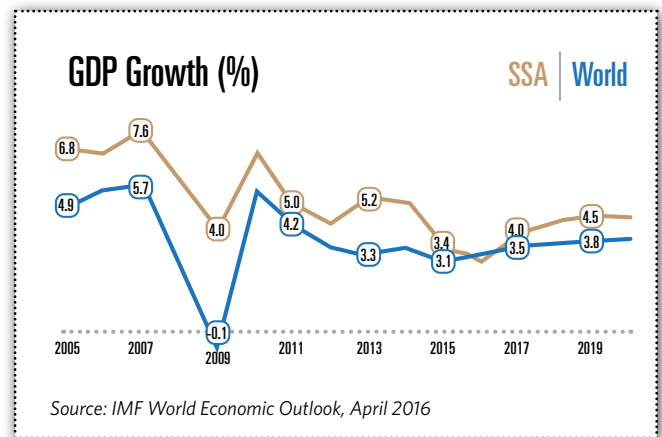
Emerging Market Developments in

AFRICA



Africa is a study in contrasts. After decades of stagnation, the continent's fortunes began to improve, largely through the export of rich natural resources, including oil and gas, metals and minerals, and agricultural commodities like tea, coffee and cocoa. Wealth gained from these resources helped fuel investments in other key industries and infrastructure projects.

The continent's story shifted two years ago, however, when a sharp decline in oil and other commodity prices put severe strains on many of the largest SSA economies. In April 2016, the International Monetary Fund (IMF) acknowledged that, overall, the region displays a markedly weaker economic picture, but medium-term growth prospects remain favorable. As a continent, Africa's projected GDP growth still outperforms the rest of the world.



In addition to working through its own challenges, Africa is seriously impacted by China's fortunes, which has become the region's major trade partner and an increasingly important source of foreign direct investment and financing. After running a strong surplus trade balance with China for nearly 15 years, the balance recently turned to a deficit, as China deals with its own economic issues.

Three Big Reasons to Remain Bullish

1. Favorable demographics

The planet's second largest land mass is already home to more people than any other continent; 15 percent of the world's population lives in Africa. In less than 30 years, however, its population is expected to double. By 2100, 4 billion people will be African, or 40 percent of the world's population.

Its population is also relatively young. Currently, 200 million Africans are between 15 and 24 years old. The World Bank estimates that Africans are, on average, 10 years younger than the rest of the world (19.7 years versus 29.7 years, as of 2012).

Even though the average age is expected to increase to 25.4 years by 2050, Africa doesn't face one common challenge in other regions—supporting a growing population

of aging retirees. In contrast, Africa's youthful population is broadly considered a major asset for future growth, as long as employment opportunities also remain present.

2. Urbanization

The flight of people from rural to urban areas and the growth of megacities is a global trend that is amplified across Africa. While the continent has traditionally lagged in urbanization rates (40 percent, as of 2014, compared to 54 percent worldwide), this figure will increase to 47 percent by 2030 and 56 percent by 2050.

Africa now has 50 cities with populations over 1 million people. A century ago it had one (Cairo).

Double-digit growth rates are common, including more than 70 percent increases (by 2025) in the populations of Nairobi (Kenya), Kinshasa (Democratic Republic of Congo),

Luanda (Angola) and Dar es Salaam (Tanzania).

Lagos, Nigeria's largest city, is expected to be the 12th largest city in the world by 2025 and has already displaced Cairo as the largest city on the continent.

While the largest cities attract the most attention, the United Nations expects the fastest-growing urban areas to be medium-sized cities and cities with less than one million inhabitants. Other growth pockets include so-called satellite cities on the outskirts of major urban areas, such as Eko-Atlantic (Nigeria), Hope City (Ghana), and Konza City (Kenya).

3. Growing middle class

Across Africa, the vast majority of people still live in poverty. In recent years, however, numerous countries have witnessed substantial growth in the middle class—a trend that's expected to accelerate.



According to Standard Bank, by 2030, an additional 14 million middle-class households are expected to be added across 11 fast-growing countries. They will comprise 75 percent of the total African economic output, bringing the total number of middle-income households above 40 million.

Commensurate improvements are also expected in consumer spending. A 2014 report produced by Investec Asset Management for the U.S. Chamber of Commerce predicts Africa's buying power will nearly double by 2020 to US\$1 trillion, including US\$200 billion in discretionary spending.

Implications for Real Estate

The growth of Africa's urban centers is driving demand for every type of real estate development, both residential and commercial. "There's a desperate need for shopping centers, supermarkets, safe hotels, American-style office buildings and more," says Howie Gelbtuch of Greenwich Realty Advisors Incorporated in New York and past chairman of the Counselors of Real Estate.

Retail property development is largely in response to recent growth in the urban middle class. For example, South African retailers Shoprite and Pick n Pay have entered markets across the continent. Modern shopping malls, on the other hand, are harder to find. Perhaps the most significant recent news, in terms of retail investment originating outside the

continent, was Wal-Mart's \$2.4 billion acquisition of South African retailer Massmart, finalized in 2012.

Multinational companies hoping to get in on the ground floor of Africa's growth engine are finding it difficult to secure office space. In Luanda, Angola, for example, monthly rents for prime office space can go for US\$150 per square meter/month. Converted to square feet/year (\$167), this is roughly twice the cost of office space in Manhattan (\$75).

As more and more people flock to Africa's cities, demand has grown for everything from high-end luxury properties to affordable housing. In time, the cost of urban real estate will likely rise, triggering new affordability issues.

Developers are already challenged to become more innovative in their design and construction techniques.

The absolute size of Africa's urban populations also provides numerous niche opportunities, especially among younger members of the population. For example, student housing is one segment in need of attention. In South Africa, over 600,000 students in higher learning institutions did not have adequate housing in 2015. Similar shortages exist in Nigeria, Kenya and Ghana. While opportunities appear abundant on the macro level, it's important to note that each market has a unique story at the micro level. To be successful, investors

must carefully study local market demand in order to develop well-planned and well-located properties.

Major Challenges

To be sure, real estate investment in Africa is not without substantial risks. Before its economies can reach their full potential, numerous significant hurdles must be cleared, including (but not limited to):

Transportation - Lack of roads and railways makes it difficult and expensive to move goods. For example, it's more expensive to ship goods 500 miles inland from Lagos to Kano, Nigeria than to send the same shipment from Lagos to Beijing (7,000 miles). Only 16 percent of roads are paved, compared to 58 percent in South Asia.

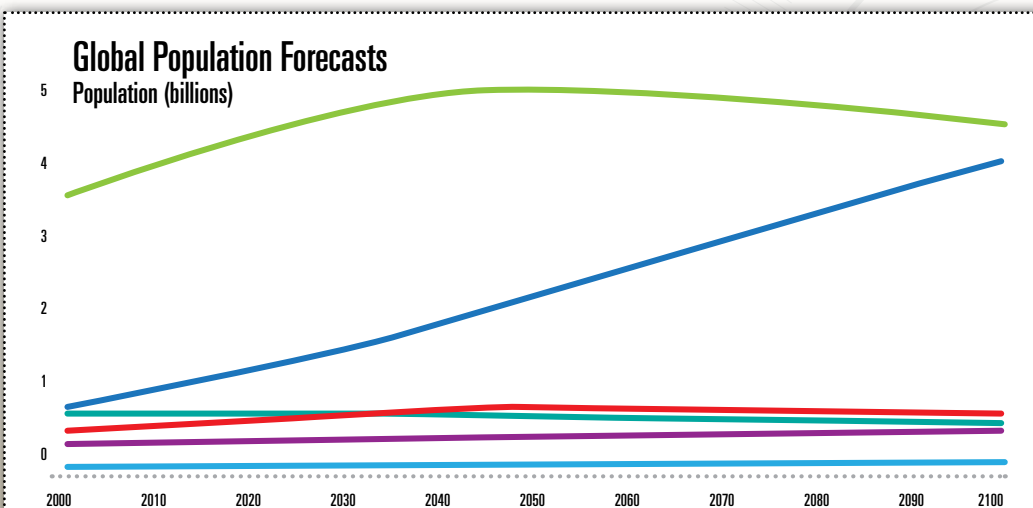
Other infrastructure needs - Many areas lack telecommunications, high-speed Internet, reliable electricity and potable water. Only a quarter of the population has access to electricity.

Political instability - Research shows a very high correlation between political stability and inflows of foreign direct investment (FDI). Maintaining stability, however, is often difficult. Six of eight Very High Alert countries on the 2016 Fragile States Index are African (Congo, Chad, Sudan, Central African

Republic, South Sudan and Somalia), and four more African nations are on High Alert (Zimbabwe, Burundi, Nigeria and Guinea).

Corruption - Developing countries tend to receive the lowest scores in Transparency International's Corruption Perception Index. In its 2015 ranking, six of the 10 worst countries are African (Guinea-Bissau, Libya, Angola, South Sudan, Sudan and Somalia), while

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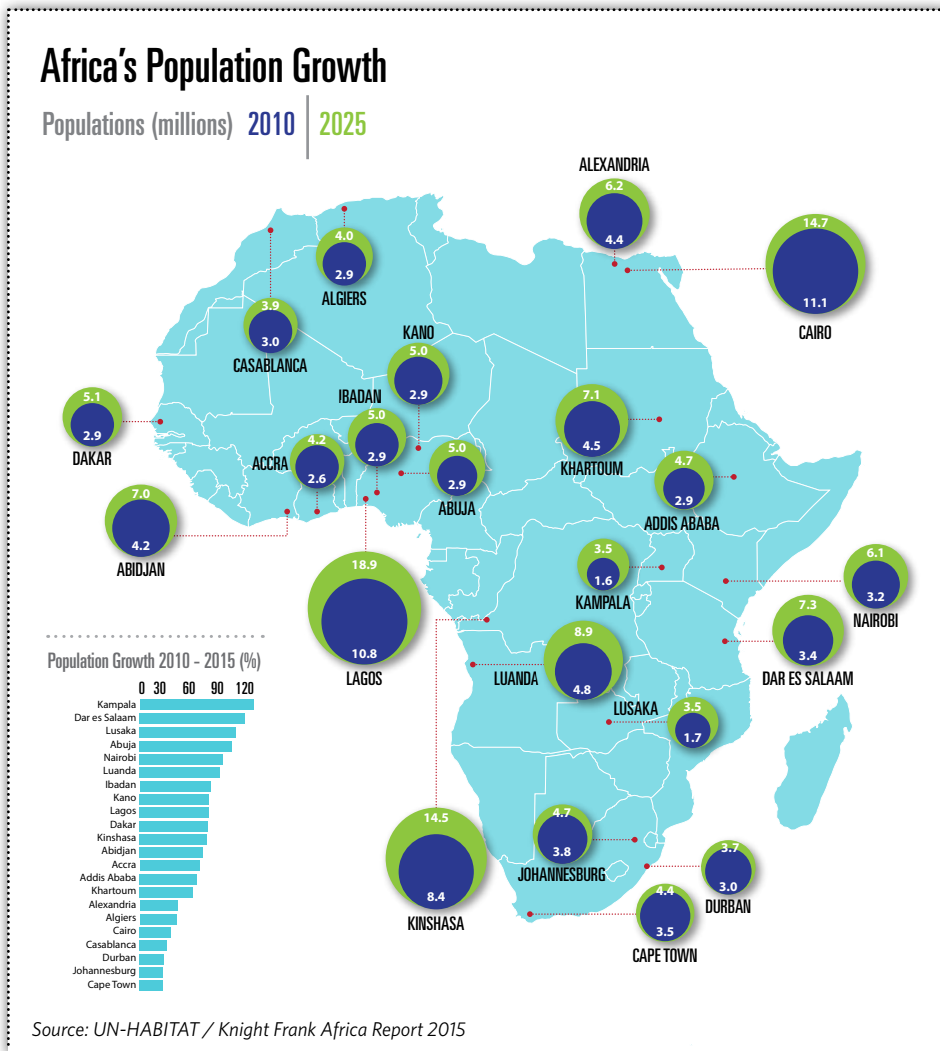


Africa | Asia | Europe | Latin America & the Caribbean | Northern America | Oceania

Source: United Nations Population Division / Knight Frank Africa Report 2015.

(continued from page 3.)

Emerging Market Developments in Africa



Financial services - Significant progress has been made, particularly with regard to innovative mobile telephone technologies (for financial services) and through the emergence of large Pan-African banks. These two developments have helped mobilize and allocate financial resources, which in turn has reduced volatility and spurred growth. In fact, if remaining gaps were filled, the IMF estimates that countries in the region could see an additional bump in growth approaching 1.5 percentage points.

Telecommunications - Almost 70 percent of Africa's population now has a mobile subscription, amounting to roughly 800 million mobile phones across the continent. Additionally, the Harvard Business Review estimates that more people have mobile banking accounts than traditional banking accounts in nine countries.

Advice for Real Estate Professionals

While there are dire needs for all types of real estate developments, Howie Gelbtuch insists projects must be completed with a local partner who is very familiar with the local market and its people. Also, many countries will only allow foreign ownership stakes of no more than 49 percent. (Wal-Mart's 51 percent purchase of Massmart was a very rare exception.)

It's also essential to overcome all-too-common title and property rights issues. "Investors won't invest unless they know they can get good title," says Gelbtuch.

Finally, he points out that training is another area of opportunity. "Capitalism is new to many Africans. Basic valuation techniques need to be learned, as well as learning how to access good market data," says Gelbtuch. "The information is there, but in many cases, junior locals don't know how to obtain or analyze it." 🌍

40 of 46 countries in SSA show serious corruption issues. For example, police roadblocks that can only be passed after paying a bribe are common.

Poverty and hunger - Improvements have been made, but much more is needed. On a percentage basis, SSA has seen slow declines in both poverty and hunger, but on an absolute level, the number of people experiencing poverty and hunger remains steady. Forty percent of the population lives on less than US\$1.25/day.

Crime and terrorism - A wide variety of street crime is common and often increases on weekends when senior police have days off. Even in South Africa, many drivers don't stop for red lights at night if

there are no other cars, and schoolchildren protect their backpacks by wearing them over their chests. Militant terrorists pose more serious threats in several nations.

Recent Glimmers of Growth

In spite of these and other challenges, it's worth noting several key accomplishments:

Entrepreneurial spirit - Many African professionals who lost overseas jobs during the Great Recession have returned to their native countries. Possessing top-grade skills but lacking employment opportunities, they began building new businesses focused on solving local problems. Their innovations are creating core intellectual properties fully capable of competing on a global stage.



POPULATION

25 MILLION

MAJOR CITIES

ACCRA* | 2.6 MILLION

KUMASI | 2 MILLION

GHANA



Ghana is experiencing rapid population growth, as well as a growing middle class, second only to Nigeria. It enjoys an abundance of natural resources and an advanced banking system, plus a relatively diverse economy and stable government.

Residential Market

New housing developments have catered toward foreign and local workers interested in higher-end urban properties, primarily large apartment complexes funded by foreign investors. The 27-story Villaggio Vista in Accra is Ghana's tallest building.

Commercial Market

Accra Mall, opened in 2008, is Africa's first modern shopping mall and attracts nearly four million visitors each year. Its success led to the development of the West Hills Mall, also in Accra, and Kumasi City Mall in Ghana's second largest city. More neighborhood retail centers are needed.

Accra's One Airport Square, a pristine example of sustainable building, is considered the most prestigious corporate address in Ghana. Several major mixed-use developments are at various stages, including Accra Financial Centre, The Octagon, and The Exchange.

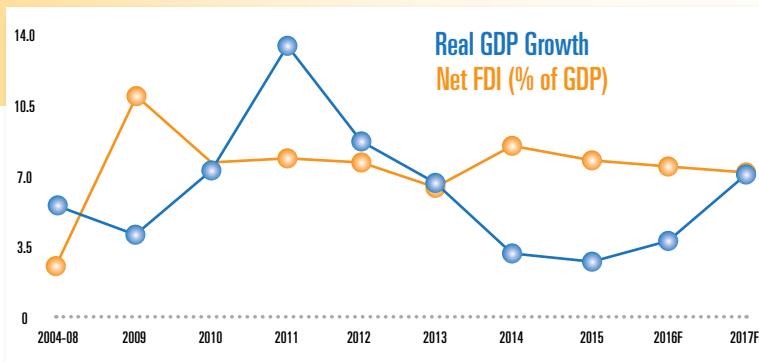
Repeatedly stalled construction on Hope City, a \$10 billion high-tech hub outside Accra, began in June 2016, with a three-year completion date. The six connected buildings include a 75-story tower, which would be Africa's tallest.

Infrastructure

Lack of reliable energy is the biggest infrastructure challenge in Ghana. The government's efforts to more than double its power generation capacity have created major FDI opportunities. Roads are another top priority. In Ghana, road density is similar to China, but Ghana's spending on its roads is substantially lower (1.5 percent of GDP versus 9 percent in China). 🌐

Economic forecasts for Nigeria are now relatively subdued, following the boom years of high-priced oil exports. Still, Africa's most populous nation remains rich in other resources, including a young urbanized population with a median age of 19, and a diversified economy. By 2025, Nigeria is expected to add 7.6 million middle-class households.

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POPULATION

181 MILLION

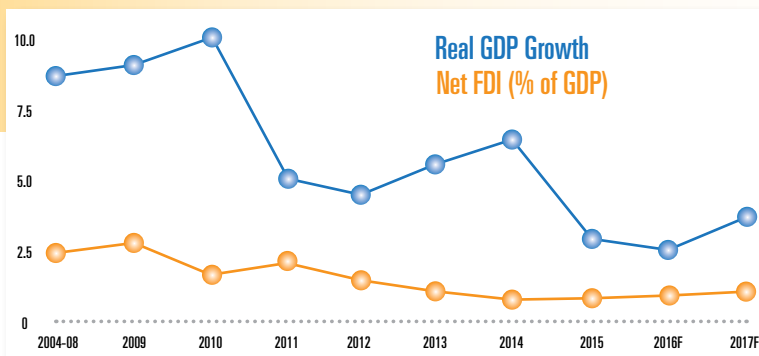
MAJOR CITIES

LAGOS | 12.4 MILLION

KANO | 3.3 MILLION

ABUJA* | 2.6 MILLION

NIGERIA



*capital city

NIGERIA (continued from page 5.)

The country also faces numerous challenges, including escalating terror attacks concentrated in the northeast. The 2015 Global Terrorism Index places Nigeria in the #3 spot, behind Iraq and Afghanistan.

Residential Market

Nigeria's housing deficit is estimated at 17 million units and is expected to increase by two million units/year. Even where housing is available, prices and mortgage financing can be major hurdles. The Nigerian government, in

conjunction with the private sector and The World Bank, is working to improve mortgage access and funding rates.

Commercial Market

It's difficult to understate the importance of retail development in Nigeria, where there is only one square meter of retail space per 1,000 people. In addition to smaller projects, 25 destination malls are in the pipeline. Office space is also in high demand. Several Grade A projects include the Wings development on

Lago's Victoria Island and the World Trade Center in Abuja. The Eko Atlantic project, built on 10 million square meters of reclaimed land, will house 250,000 residents, plus state-of-the-art offices and retail space.

Infrastructure

Megaprojects include the Lagos-Calabar Railway (1,400 km coastal railway built by a state-owned Chinese company) and Lekki Deep Seaport (60 km east of Lagos and scheduled to begin operating in 2017). 🌐

POPULATION

54 MILLION

MAJOR CITIES

JOHANNESBURG | 4.4 MILLION

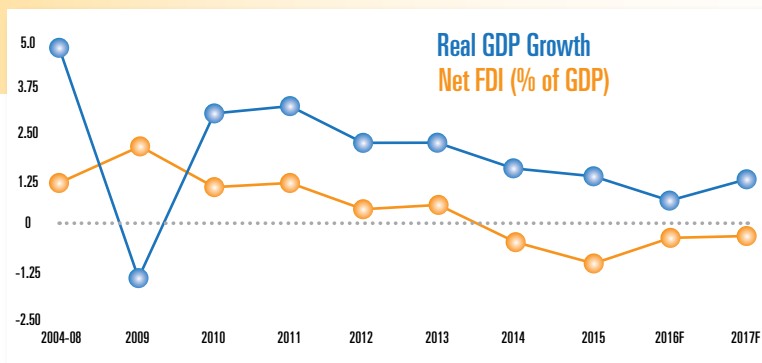
CAPE TOWN* | 3.7 MILLION

DURBAN | 3.5 MILLION

PRETORIA* | 2.5 MILLION



SOUTH AFRICA



*capital city

South Africa is the continent's most mature, regulated and transparent real estate market. While it is generally viewed as the benchmark against which other African nations are measured, economic growth in South Africa has slowed and it still faces serious challenges, including poverty, unemployment and income inequality.

Residential Market

The trend towards urbanization is particularly strong in South Africa. By 2030, 70 percent of its population is expected to live in cities, exacerbating the current housing deficit and placing further pressure on demand for affordable housing for low- and middle-income families.

Among international buyers, the most attractive areas are Cape Town and the Western Cape, followed by Johannesburg.

Commercial Market

Retail developments have been the leading investment segment among South Africa's property markets. The Mall of Africa is the most significant project, which opened last April and is located between Johannesburg and Pretoria. In general, local brands like Shoprite, Pick n Pay and Woolworths lead the retail segment, but overseas brands are appearing in increasing numbers (Zara, Forever 21, Topshop, H&M).

Interestingly, a growing number of investor/developer funds established in South Africa are targeting projects throughout the rest of SSA. For example, RMB Westport (an affiliate of Rand Merchant Bank) raised US\$250 million for office and retail projects in Angola, Ghana and Nigeria.

SOUTH AFRICA (continued from page 6.)



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Infrastructure

The government's National Development Plan (NDP) places a high priority on resolving South Africa's energy shortages, including a significant expansion in capacity and renewable energy sources. Roughly US\$80 billion has been budgeted over three years for major infrastructure projects. 

POPULATION

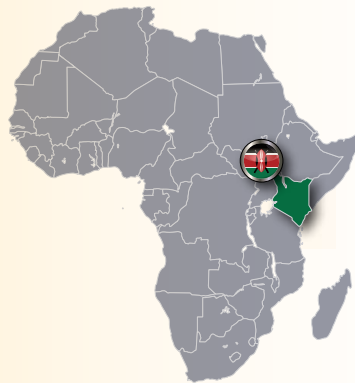
46 MILLION

MAJOR CITIES

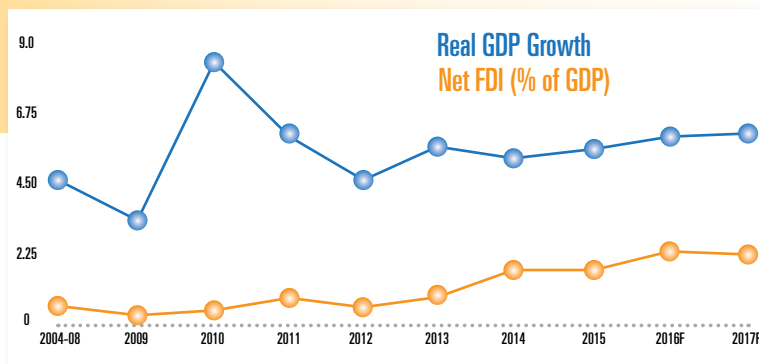
NAIROBI* | 3.4 MILLION

MOMBASA | 1.2 MILLION

KISUMU | 1.0 MILLION



KENYA



Kenya is generally considered one of the most promising markets in Africa. It is currently the continent's eighth largest economy. Its strategic location in East Africa makes it an attractive entry point for foreign companies expanding into the region. It also has one of the world's most highly diversified populations, including over 70 distinct ethnic groups.

While Kenya has a relatively stable political and economic climate, it has faced increasing terrorist attacks over the past five years. Economically, the primary impact has been a noticeable decline in tourist arrivals, but future outside investments may hinge, in part, on resolving these issues.


Residential Market

To help fill significant urban housing gaps, the government provides incentives to private developers who are increasingly taking a high-density approach to multi-unit housing. In contrast, the prime residential market in Nairobi and Mombasa is showing signs of slowing down, partly due to oversupply, but also in reaction to security concerns.

Commercial Market

The increasing spending power of Kenyan consumers is driving demand for retail outlets, including the recent debuts of foreign brands like Carrefour, Game and Debenhams. In contrast, office space offers a mixed story, with supply expected to exceed demand in 2016 for some segments like Grade B space.

Infrastructure

Notable megaprojects in Kenya include the LAPSET Project (connecting a new port and oil refinery in Lamu with new road and rail networks, airports and oil pipelines), the Mombasa-Nairobi-Kampala-Kigali-Juba Railway, and Konza Technology City (modeled on California's Silicon Valley and intended to provide nearly 100,000 technology jobs). 

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UPDATE ON AFRICA

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